COURSE LEARNING OUTCOMES

At the end of this course the students will be able to

CLO 2 Assess the concept of Redemption of shares, debentures, underwriting of shares and underwriter’s liability.

Preview of last class

01 **Capital Redemption Reserve Account**

Procedures 02

03 **Purposes**

Problems 04

Topics Covered

Redemption of Preference Shares

- **Specimen Journal Entries**
- **Model Problems with Solution**

REDEMPTION OF SHARES PROBLEMS - LECTURE VIDEO

SOURCE

https://www.youtube.com/watch?v=z6cnpe1EAvU

CLICK

SOURCE : Animation by Mr. Sahal Academy, Educational Channel, IPCC_

https://www.youtube.com/watch?v=F2q-0E7v6tQ

https://www.youtube.com/watch?v=Has8mppDKz8

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Redemption of Preference Shares – Specimen Journal Entries

Accounting Entries

The redeemable preference shares can be redeemed by a) the proceeds of a fresh issue of equity shares/ preference shares, b) the capitalization of undistributed profit i.e. creating capital redemption reserve account, or c) a combination of both (a) and (b). Let us see the accounting entries required for redemption of preference shares.

i) When new shares are issued at par:

Bank A/c .....Dr.
To Share Capital A/c.

ii) When new shares are issued at premium:

Bank A/c .....Dr.
To Share Capital A/c
To Securities Premium A/c

iii) When new shares are issued at a discount:

Bank A/c .....Dr.
Discount on Issue of Share Capital.....Dr.
To Share Capital A/c.

iv) Conversion of partly paid shares into fully paid shares:

a) Share Call A/c .....Dr.
To Share Capital A/c

b) Bank A/c .....Dr.
To Share Call A/c.

Redemption of Preference Shares – Specimen Journal Entries

v) When preference shares are redeemed at par:

Redeemable Preference Share Capital A/c .....Dr.

To Preference shareholders A/c.

vi) When preference shares are redeemed at a premium:

Redeemable Preference Share Capital A/c .....Dr

Premium of Redemption Preference Share Capital A/c....Dr.

To Preference shareholders A/c.

vii) Adjustment of premium on redemption:

Profit and Loss A/c.....Dr.

Securities Premium A/c .....Dr.

To Premium of Redemption Preference Share Capital A/c

viii) Transferring the amount to Capital Redemption Reserve Account:

General Reserve A/c .....Dr.

Profit and Loss A/c .....Dr.

To Capital Redemption Reserve A/c

Redemption of Preference Shares – Specimen Journal Entries

ix) Expenses on issue of shares:

Expenses on Issue of shares A/c.....Dr.

To Bank A/c.

x) When payment is made to preference shareholders:

Preference Shareholders A/c .....Dr.

To Bank A/c.

xi) When the fully paid bonus shares are issued:

Capital Redemption Reserve A/c ..... Dr.

General Reserve A/c .....Dr.

Securities Premium A/c .....Dr.

Profit & Loss A/c ..... Dr.

To Bonus to Shareholders A/c

xii) Capitalization of profit:

Bonus to Shareholders A/c .....Dr.

To Equity share capital A/c

Redemption of Preference Shares – Model Problem 1

ABC Co. Ltd. had part of its share capital in 2000 preference shares of Rs.10 each fully paid up and these have become due for redemption. The preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for this purpose and the general reserve of the company stood at Rs.25,000. Show the journal entries for the above transactions.

Redemption of Preference Shares – Solution

Solution

Journal entries

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2010 April 1	Preference share capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 2000 preference shares)		20,000	20,000
2010 April 1	Bank A/c Dr. To Equity Share Capital A/c (Being the amount received on issue of 2000 equity shares of Rs.10 each made for the purpose of redemption of preference shares as per Board's Resolution dated).		20,000	20,000
2010 April 1	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid)		20,000	20,000

Redemption of Preference Shares – Model Problem 2

Xaviar Co. Ltd. Issued 50,000 Equity shares of Rs.10 each and 3000, 10% Preference shares of Rs.100 each, all shares being fully paid. On 31.3.18, Profit and Loss Account showed an undistributed profit of Rs..50,000 and General Reserve Account stood at Rs.1,20,000. On 2.4.18, the directors decided to issue 1500, 6% Preference shares of Rs.100 each for cash and to redeem the existing preference shares at Rs.105 utilizing as much as would be required for the purpose. Show the journal entries to record the transactions.

Redemption of Preference Shares – Solution

Solution **Journal entries**

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 2	10% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 3000 preference shares, with premium of 5%).		3,00,000 15,000	 3,15,000
"	Bank A/c Dr. To 6% Preference Share Capital A/c (Being the amount received on issue of 1500, 6% Preference shares of Rs.100 each made for the purpose of redemption of preference shares as per Board's Resolution dated.....).		150,000	150,000
"	General Reserve A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against general reserve)		15,000	15,000

Redemption of Preference Shares – Solution

"	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).		105,000 45,000	 150,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid).		315,000	 315,000

Redemption of Preference Shares – Model Problem 3

The Producers Ltd.’s Balance sheet shows the following balance s on 31-3-18. 30,000 equity shares of Rs.10 each fully paid; 18,000 10% Redeemable Preference shares of Rs.10 each fully paid; 4000, 15% Redeemable Preference shares of Rs.10 each, Rs.8 paid up. General Reserve Rs.1,20,000; Securities Premium Rs.19,000; Profit Loss Account Rs.80,000 and capital Reserve Rs.20,000. Preference shares are redeemed on 1-4-18 at a premium of Rs.2 per share. For redemption, 4000 equity shares of Rs.10 each are issued at 10% premium. A bonus issue of equity share was made at par, two shares being issued for every five held on that date. Show the journal entries to record the above transactions

Redemption of Preference Shares – Solution

2008 April 1	10% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of 2%).		180,000 36,000	 216,000
"	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the amount received on issue of 4000, Equity shares of Rs.10 each made with premium of 10% for the purpose of redemption of preference shares as per Board's Resolution dated.....).		44,000	 40,000 4,000
"	Securities Premium A/c Dr. Profit And Loss A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against general reserve)		19,000 17,000	 36,000

Redemption of Preference Shares – Solution

"	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).	"	120,000 20,000	140,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid).	"	216,000	216,000
"	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c Being the amount utilised for issue of bonus shares in 5:2 ratio as per shareholders Resolution No. Dated…) 30,000x2/5xRs.10	"	120,000	120,000
"	Bonus to Shareholders A/c Dr. To Equity Share capital A/c (Being the amount capitalised by issue of bonus shares)		120,000	120,000

Redemption of Preference Shares – Model Problem 4

The preference shares were redeemed on April 1, 2018 at a premium of Rs.5.00 per share, the whereabouts of the holders of 1500 such shares not being known. At the same time, a bonus issue of equity share was made at par, one share being issued for every four equity shares held. Show the journal entries to record the above transactions. The following is the balance sheet of Black & White Co. Ltd. a

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Issued & Subscribed Capital: 40,000 Equity shares of Rs.10 each fully paid	4,00,000	Fixed Assets	7,00,000
18,000, 8% Preference shares of Rs.10 each fully paid	1,80,000	Current Assets	4,00,000
Reserves & Surplus:	4,80,000		
Profit & Loss Account	40,000		
Current Liabilities:			
Sundry Creditors			
	11,00,000		11,00,000

Redemption of Preference Shares – Solution

Solution

Journal Entries

Date	Particulars	LF	Dr.(Rs.)	Cr.(Rs.)
2008 April 1	8% Preference share capital A/c Dr. Premium on Redemption of Preference shares capital A/c Dr. To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of Rs.5 each).		1,80,000 90,000	 270,000
"	Profit And Loss A/c Dr. To Premium on Redemption of Preference shares capital A/c (Being the amount written off against Profit And Loss A/c)		90,000	90,000
"	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred equal to the nominal value of shares redeemed and proceeds of new issue).	"	1,80,000	1,80,000

Redemption of Preference Shares – Solution

'	Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being issue of 1 bonus share to every 4 equity shares held as per shareholders Resolution No. Dated…) 40,000x1/4xRs.10		1,00,000	1,00,000
"	Bonus to Shareholders A/c Dr. To Equity Share capital A/c (Being the amount capitalised by issue of bonus shares)		1,00,000	1,00,000
"	Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid except 1500 share holders).		2,47,000	2,47,000

Test Your Knowledge

LINK

https://

docs.google.com/document/d/1fK1DvlU6CNB4endYj7H720mG_3HlOBNVkHhzOKK132o/edit?usp=sharing

THANK YOU